
Roles and Responsibilities of the Issuer in the Debt Issuance Process

*California Debt and Investment Advisory
Commission*

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Overview

- Capital Improvement Plan
- Types of Bonds
- Financing Team
- Method of Sale
- Structuring the Deal
- Rating Agencies
- Credit Enhancements

Capital Improvement Plan

- A CIP identifies projects to be funded, funding sources, and project expenditures into the future
- Is a key management tool
 - Establishes priorities
 - Matches
 - Positive factor from credit rating agencies
- CIP's shouldn't always rely solely on debt financing. Seek other revenues.
- Funding Source: Equity, Effectiveness, Efficiency
 - Fair to all who pay?
 - Is the revenue stream sufficient?
 - Are the costs less than using another source?

General Obligation Bonds

- General obligation bonds
 - Most common
 - Benefits community as a whole
 - Lower interest rates, stronger security pledge (tax levy)
 - Usually property or sales tax pledge
 - No reserve necessary
 - Flexible financing instrument
 - Voter approved

Revenue Bonds

- Have a definable user or revenue base
 - Pledge of a specific revenue stream
- Less secure than GO bonds
 - May be set by taxes, but limited
- Voter approval not necessary
- Issued for specific project and/or specific users
- Paid from the revenue of the project
- Debt service reserve usually required

Financing Team

- Financial advisor?
 - Assists w/ evaluation of all funding sources
 - Assists w/ RFP's
 - Assists bond counsel w/ document preparation
 - Assists w/ calendar & timing of issue
 - Cost – usually based on \$ amount per bond.
 - Ex: \$1 per \$1,000 of bonds sold
 - Bigger issue, bigger fee
 - Fixed amount more objective

Financing Team

- Role of the underwriter
 - Competitive v. negotiated sale plays a big part as to how much help the underwriter can be in structuring the deal
 - Competitive = less involvement (this is where an FA is very important)
 - Must be experienced with type of transaction being considered
 - Must have access to investors

Financing Team

- Role of bond counsel
 - Make sure legal authority is there
 - Tax opinions – tax exempt or taxable
 - Preparation of the documents
 - Indenture
 - Bond purchase contract
 - Trust agreement

Trustee

- Custodian of your funds
- Trust Indenture
 - Understand what it is
 - Know what your permitted investments are
 - Market is tough right now; investing reserves is more difficult
 - Get quotes from banks

Investing Reserves/Proceeds

- Setting up a reserve fund will cut into your proceeds
- Buying a surety will eliminate your reserve fund, but will cost you
- Arbitrage (earnings that exceed the municipal bond yield)

Official Statement

- Tell your story
- Especially now, everyone is skeptical

Method of Sale

- Competitive or negotiated
 - Governed by your debt policy?
 - Both can work
- Competitive depends on volatility of market, and an underwriter's ability to gauge the market
 - Rates can be defended in public

Method of Sale

- Negotiated
 - Issuer selects underwriter early in the process
 - Underwriter participates in structuring of the issue, preparation of documents

Structuring the Issue

- Five, 10, 20 or 30 year issues
- The longer the term, the greater the flexibility
- Fixed-rate issues – most common
- Variable-rate issues – more risk

Structuring the Issue

- Serial and Term bonds
 - Serial allows portion of bonds to mature every year
 - Lower interest rates on early redemptions
 - Term bond combines serial bonds into one; more attractive to institutional investors

Rating Agencies

- Know what your rating is
- Standard & Poor's (or Moody's or Fitch Investor's Service) don't always know your facts
- Submit a rating request prior to issuance
- Rating will be assigned
- Schedule a meeting (whether in person or conference call)

Credit Enhancements

- Bond insurance
 - Is it worth it?
 - Guarantees principal and interest payment
 - Usually 30 to 75 basis points
- Insurance companies have been downgraded
- What does this mean?

Questions and Answers

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